



## **Influence of Internal Auditing On Financial Reporting Performance Of Universities In Rivers State**

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### **ABSTRACT**

The study examined ‘The Influence of Internal Auditing on Financial Reporting Performance of Universities in Rivers State. Four purposes of the study, four research questions and four hypothesis guided the study. Descriptive survey design was used, the study was carried out in Rivers State. The population of the study consists of 428 staff working in the bursary and finance departments of the Universities in Rivers State. A questionnaire titled ‘Internal Auditing on Financial Reporting Performance Questionnaire’ developed by the researcher was used to gather the necessary data for the study. The instrument was validated by an expert in the field of Measurement and Evaluation and two experts in the department of Business Education. Mean and Standard deviation was used to answer the research questions, while two-way ANOVA was used to test the null hypotheses at 0.05 level of significance. The findings of the study reveals that there is a strong influence of internal auditing on the reporting of income statement in Universities in Rivers State. based on the findings, the study recommended that the university should ensure adequate reporting of income statement that will enable the management of Universities in Rivers State to carry out competency profiling in the Internal Audit Department.

**Keywords:** Internal Auditing, Financial Reporting, Performance, Influence.

### **INTRODUCTION**

The university is a place of higher learning where students are taught and research is conducted in a wide range of fields of human endeavor. Whether public or private it has the primary goal of providing educational services and counseling to the public at the appropriate time. It is critical to recognize that in order to effectively achieve the desired objectives set out by the higher institutions of learning, the management of the institution must establish an effective internal audit unit capable of providing the institution's management with necessary analyses, appraisals, and recommendations for future decision-making. University education management is clearly accountable for establishing the tasks of the internal audit unit and ensuring that it has a sufficient amount of power and independence, including the right to report to the highest authority. In order for organizations to be effective in discharge of their responsibility, a well-designed internal auditing system must be implemented to maintain an effective internal control system (Baker, 2019).

The management of university is clearly responsible for defining the roles of internal audit unit and ensuring that it has an appropriate level of authority and independence, including the right to report to the highest authority. To ensure effective internal control system, there has to be accountability in their cash flow. Therefore, for the organizations to have a successful accountability, a well-designed internal auditing system must be put in place, which is a role established by the administration of a certain institution. Internal Audit becomes an indispensable management tool for achieving effective control in

both public and private organizations. Control mechanisms are those processes set up to monitor and to direct, promote or restrain the various activities of an enterprise for the purpose of seeing that enterprise objectives are met.

Internal audit is an internal mechanism the members of the organization use for effective discharge of their responsibilities. Also, it is an independent appraisal function established within an organization to examine and evaluate the effectiveness, efficiency and economy of management control system (Subramaniam, 2016). The aim is to provide management with re-assurance that the internal control systems are adequate for the need of the organization and are operating satisfactorily (Reid & Ashelby, 2012). However, Institute of Internal Auditors (IIA) (2019) posits that, internal auditing is that activity that guarantees that internal controls of an organization are sufficient to alleviate risks. Supportively, Gupta (2011) asserts that, internal auditing is an independent appraisal function developed within an organization to investigate and evaluate its actions as a service to the organization's management.

Most internal audit specialists point that successful internal audit practices relate with enhanced organization performance. Organizational performance to a great extent contains the real yield or after-effects of an association as measured against its proposed yields or goals and objectives (Chiggai, 2016). An effective organization is the one that is performing admirably and that is accomplishing its objectives and is adequately executing appropriate procedures. Financial reporting performance refers to the ability to efficiently handle business finance, business profitability, survive grow and react to the environmental opportunities and threats. In relation to this, Sollenberg and Anderson (2015) agreed that, financial reporting performance is measured by how efficient the organization is in use of resources in achieving its objectives. It is the measure of attainment achieved by an individual, team, organization or process.

It is a well-known fact that, timely and reliable financial data guides management in the formulation of appropriate policies in a given organization. Abdullahi (2017) adds that internal auditing is not only relevant to financial reporting performance but it is the most effective aid to financial management. Adejola (2019) states that, effective auditing assists organizations in many ways amongst which are preserving the data integrity and ensuring accurate and complete data processing. Owo (2013), opines that well established internal auditing ensures profit maximization and loss/cost minimization. Internal audit system assists in seeing that all adhere to ethics governing the organization and sundry, this is apart from clashes of information for different cadre of officers. Walker (2019) adds that, internal auditing if well designed and implemented would provide reasonable assurance regarding the prevention of or prompt detection of unauthorized expenditure, or disposition of University's assets. This study agrees with the above studies and added that, collusion among employees and fraud perpetration by the staff is as a result of ineffective internal audit unit of the organisation which will leads to weak internal audit performance and finally to make the internal audit system not to provide absolute assurance that, all the objectives of an organisation will be achieved.

Internal auditing has traditionally been regarded as an independent appraisal function within an organization responsible for reviewing accounting, financial, and other operations as a basis of service to management (Millichamp, 2018). Thus, internal auditing was initially viewed as a task that focused on an organization's financial activities. As a result, the internal audit function's scope of work has recently expanded to include assisting management and the board of directors in ensuring effective corporate governance. It is imperative to recognize that in order for University to achieve their goals effectively, an effective internal audit system must be established to provide management with the necessary analyses, assessments, and recommendations for decision making (Modibbo, 2015). On this basis, the regulatory authorities of Nigeria's tertiary institutions (TI), which include the National Commission for Colleges of Education (NCCE), the National Board for Technical Education (NBTE), and the National Universities Commission (NUC), provided a uniform accounting and auditing manual, which explained the specific guidelines, methods, and ways of audit guidelines as they relate to remuneration (Federal Ministry of Finance, 2011; University of Ibadan Audit Manual, 2014).

Staff (teaching and non-teaching) from various disciplines and in most cases in large numbers are required to implement the various programs in Rivers State's university. The act of managing the system

becomes relatively complex as the size of the educational institution grows, necessitating a high level of professional competence from the institution's head. As an organization that will be run entirely by independent management, an accounting system that is appropriate for the purpose of the establishment must be installed. These institutions are funded through subventions, grants from both the state and federal governments, internal generated revenue (IGR), and donations from non-governmental organizations.

Contrary to popular belief, the institution is a for-profit or non-profit organization. This has increased the accounting departments and management staff's workload. That is, because they generate revenue through normal business operations, the manner in which this income is distributed in connection with government subsidies and grants must be properly accounted for. Based on the foregoing, this study looks into the influence of internal auditing on the financial reporting performance of universities in Rivers State.

### **Statement of Problem**

Nigerian universities face numerous challenges as a result of their unique nature. These challenges can be attributed to an extent, the laxity in revenue and expenditure management, inadequate payroll controls, weak internal control system, among other issues which leads to irregularities in financial management and public reporting system. The majority of these challenges are caused by financial anomalies which are likely to be caused by political dictation, incompetent account department employees, and lapses in other sensitive units that are liable to jeopardize the accounting system and its operations (Hawk, 2010; Olatunji, 2019). Prior reports have shown that auditing guidelines require institutions to ensure compliance with the internal control system, safeguard the institutions' assets, prevent and detect irregularities and fraud, and in day-to-day transactions. Failure of university staff to adhere to these guidelines may disrupt the normal functioning of the university as this may lead to mismanagement of funds and public scrutiny of the university's administration (Azuka, 2011). Despite this, studies have revealed flaws in the internal control system as well as several instances of fraud and misappropriation of funds in Nigerian public universities which are yet to be considered (Okezie, 2015; Millichamp & Taylor, 2018). Thus, this study was carried out to investigate the influence of internal auditing on financial reporting performance of Universities in Rivers State.

### **Purpose of the Study**

The purpose of the study was to assess the influence of internal auditing on financial reporting performance of universities in Rivers State. Specifically, the study sought to:

1. Examine the influence of internal auditing on the reporting of income statement in universities in Rivers State.
2. Determine the influence of internal auditing on the reporting of cash flow statements in universities in Rivers State.
3. Examine the influence of internal auditing on the reporting of income expenditure in universities in Rivers State.

### **Research Questions**

The following research questions guided the study:

1. What is the influence of internal auditing on the reporting of income statement in universities in Rivers State?
2. What is the influence of internal auditing on the reporting of cash flow statements in universities in Rivers State?
3. What is the influence of internal auditing on the reporting of income expenditure in universities in Rivers State?

### **Hypotheses**

The following hypotheses were formulated and tested at 0.05 level of significance:

1. There is no significant difference in the mean response score of respondents in University of Port Harcourt, Rivers State University, and Ignatius Ajuru University of Education in the influence of internal auditing on the reporting of income statement in universities in Rivers State.

2. There is no significant difference in the mean response score of respondents in University of Port Harcourt, Rivers State University, and Ignatius Ajuru University of Education in the influence of internal auditing on the reporting of cash flow statements in universities in Rivers State.
3. There is no significant difference in the mean response score of respondents in University of Port Harcourt, Rivers State University, and Ignatius Ajuru University of Education in the influence of internal auditing on the reporting of income expenditure in universities in Rivers State.

## **METHODOLOGY**

The study adopted the descriptive survey design. The survey research design is considered suitable because it allows for the use of questionnaires to elicit data from the respondents. The study was carried out in the universities in Rivers State of Nigeria. The population of this study consisted of 428 staff working in the bursary and finance department of the Universities in Rivers State. The population comprised of respondents from the audit unit (23), bursary unit (147), account unit (169), and store keeping unit (89) from the universities in Rivers State. Census sampling technique was used as the entire population was engaged in the study. This is because, the population is small and manageable by the researcher. An instrument designed by the researcher titled; Internal Auditing on Financial Reporting Performance Questionnaire (IAFRPQ), was used as a yardstick for measuring the influence of internal auditing on the financial reporting performance of universities in Rivers State. The questionnaire was divided into two sections A & B. Section "A" covered respondent's demographic information while section "B" covered the instrument guiding the filing of the instrument and the items of the instrument, having five clusters which covered the four objectives of the study, with a total of 25-items. However, the items of the questionnaire were rated on a four (4) point rating scale, with responses ranging from Strongly Agree (SA) = 4 points; Agree (A) = 3 points, (D) = 2 points; and Strongly Disagree (SD) = 1 point, with a mean criterion of 2.5. The instrument was validated by three experts, two in the Department of Business Education and one in Measurement and Evaluation, to determine the face and content validity of the research instrument. The reliability of the instrument was established through a test re-test method drawn from Captain Elechi Amadi Polytechnic in Rivers State and the reliability index of  $r = 0.85$  was established through Cronbach alpha. Four hundred and forty (428) copies of the instrument was administered to the respondents through personal contact, and four hundred and twenty two (422) was retrieved after filling.

The data collected was subjected to statistical analysis. Mean ( $\bar{x}$ ), Standard Deviation (SD), were used to answer the research questions while 2-Way Analysis of Variance was used to test the null hypotheses at the 0.05 level of significance.

**RESULTS**

**Research Question 1:** *What is the influence of internal auditing on the reporting of income statement in universities in Rivers State?*

**Table 1: Mean score and standard deviation of the influence of internal auditing on the reporting of income statement in universities in Rivers State.**

S/N	Items	Responses (n = 422)			
		WTS	$\bar{x}$	SD	Decision
.1	Internal auditing to determine if the institution has sufficient cash on hand to pay its bills	1417	3.36	0.75	Accept
.2	Internal auditing to determine if the institution is well managed in terms of collecting what is owed to it	1266	3.00	0.88	Accept
.3	Internal auditing to determine if the institution have invested enough of their own capital to the running of the institution	1403	3.32	0.70	Accept
.4	Internal auditing to determine if the institution has too much debt on its books	1345	3.19	0.95	Accept
.5	Internal auditing to determine how much the institution is reinvesting than it is taking out	1399	3.32	0.73	Accept
.6	Internal auditing to determine the net worth of the institution	1448	3.43	0.62	Accept
<b>Grand Mean/SD</b>			<b>3.27</b>	<b>0.77</b>	<b>Accept</b>

Table 1 shows the influence of internal auditing on the reporting of income statement in universities in Rivers State. The result indicated that majority of the respondents agreed to items 1-6, with their mean scores  $\geq 2.50$  (criterion mean). The grand mean of 3.27 implies that majority of the respondents affirmed a strong influence of internal auditing on the reporting of income statement in universities in Rivers State.

**Research Question 2:** *What is the influence of internal auditing on the reporting of cash flow statements in universities in Rivers State?*

**Table 2: Mean score and standard deviation of the influence of internal auditing on the reporting of cash flow statements in universities in Rivers State**

S/N	Items	Responses (n = 422)			
		WTS	$\bar{x}$	SD	Decision
.7	Internal auditing to determine the cash flow of the institution	1208	2.86	1.12	Accept
.8	Internal auditing to determine early signs of cash flow problems	1477	3.50	0.50	Accept
.9	Internal auditing to determine good cash flow habits the institution can practice	1253	2.97	0.81	Accept
.10	Internal auditing to determine the cash inflows and outflows directly related to the institution's primary activity	1343	3.18	0.70	Accept
.11	Internal auditing to determine how much the institution spent (or made) on buying (or selling) assets such as property, equipment, or even other institution	1320	3.13	0.67	Accept
.12	Internal auditing to determine the inflows and outflows of capital the company uses to fund its operations	1208	2.86	0.95	Accept
<b>Grand Mean/SD</b>			<b>3.08</b>	<b>0.79</b>	<b>Accept</b>

Table 2 shows the influence of internal auditing on the reporting of cash flow statements in universities in Rivers State. The result indicated that majority of the respondents agreed to items 7-12, with their mean scores  $\geq 2.50$  (criterion mean). The grand mean of 3.08 implies that majority of the respondents affirmed a strong influence of internal auditing on the reporting of cash flow statements in universities in Rivers State.

**Research Question 3:** *What is the influence of internal auditing on the reporting of income expenditure in universities in Rivers State?*

**Table 3: Mean score and standard deviation of the influence of internal auditing on the reporting of income expenditure in universities in Rivers State**

S/N	Items	Responses (n = 422)			Decision
		WTS	$\bar{x}$	SD	
.13	Internal auditing of every transaction from all income and expense accounts	1176	2.79	0.97	Accept
.14	Internal auditing that helps to generate a final statement of profits or losses for the fiscal year for the institution	1435	3.40	0.76	Accept
.15	Internal auditing with supporting documentation, such as cancelled checks or invoices, that explains and verify the profit or loss in the institution's tax forms	1382	3.27	0.78	Accept
.16	Internal auditing on manual changes that have been made to the figures imported from different income and expense accounts	1415	3.35	0.63	Accept
.17	Internal auditing to demonstrate that the institution's figures have not been manipulated	1495	3.54	0.74	Accept
<b>Grand Mean/SD</b>			<b>3.27</b>	<b>0.64</b>	<b>Accept</b>

Table 3 shows the influence of internal auditing on the reporting of income expenditure in universities in Rivers State. The result indicated that majority of the respondents agreed to items 13-17, with their mean scores  $\geq 2.50$  (criterion mean). The grand mean of 3.27 implies that majority of the respondents affirmed a strong influence of internal auditing on the reporting of income expenditure in universities in Rivers State.

**Test of Hypotheses**

**Hypothesis 1:** There is no significant difference in the mean response score of respondents in University of Port Harcourt, Rivers State University, and Ignatius Ajuru University of Education in the influence of internal auditing on the reporting of income statement in universities in Rivers State.

**Table 4: Summary of 2-way ANOVA on the mean difference of respondents in RSU, UNIPORT, and IAUE in the influence of internal auditing on reporting of income statement in the Universities in Rivers State.**

<b>Dependent Variable: Income Statement</b>						
Source	Type III Sum of Squares	df	Mean Square	F	Sig.	
Corrected Model	33.02 <sup>a</sup>	3	11.01	2.99	0.03	
Intercept	6747.14	1	6747.14	1832.80	0.00	
Internal Auditing	18.78	1	18.78	5.10	0.02	
Universities	25.17	2	12.59	3.42	0.03	
Error	1538.80	418	3.68			
Total	163954.00	422				
Corrected Total	1571.81	421				

a. R Squared = .021 (Adjusted R Squared = .014)

Table 4 shows that there is significant difference in the mean response score of respondents in University of Port Harcourt, Rivers State University, and Ignatius Ajuru University of Education in the influence of internal auditing on the reporting of income statement in universities in Rivers State ( $F_2 = 3.42 > 1.96$ ,  $df = 418$ ,  $P = 0.03 < 0.05$ ), hence null hypothesis one is rejected at the 0.05 level of significance.

**Hypothesis 2:** There is no significant difference in the mean response score of respondents in University of Port Harcourt, Rivers State University, and Ignatius Ajuru University of Education in the influence of internal auditing on the reporting of cash flow statements in universities in Rivers State.

**Table 5: Summary of 2-Way ANOVA on the difference in the mean response score of respondents in RSU, UNIPORT, and IAUE in the influence of internal auditing on the reporting of cash flow statements in universities in Rivers State**

<b>Dependent Variable: Cash Flow Statement</b>					
Source	Type III Sum of Squares	Df	Mean Square	F	Sig.
Corrected Model	322.50 <sup>a</sup>	3	107.50	15.76	0.00
Intercept	3160.60	1	3160.60	463.39	0.00
Internal Auditing	308.17	1	308.17	45.18	0.00
Universities	109.56	2	54.78	8.03	0.00
Error	2850.99	418	6.82		
Total	147677.00	422			
Corrected Total	3173.49	421			

a. R Squared = .102 (Adjusted R Squared = .095)

Table 5 shows that there is significant difference in the mean response score of respondents in University of Port Harcourt, Rivers State University, and Ignatius Ajuru University of Education in the influence of internal auditing on the reporting of cash flow statements in universities in Rivers State ( $F_2 = 8.03 > 1.96$ ,  $df = 418$ ,  $P = 0.00 < 0.05$ ), hence null hypothesis two is rejected at the 0.05 level of significance.

**Hypothesis 3:** There is no significant difference in the mean response score of respondents in University of Port Harcourt, Rivers State University, and Ignatius Ajuru University of Education in the influence of internal auditing on the reporting of income expenditure in universities in Rivers State.

**Table 6: Summary of 2-Way ANOVA on the difference in the mean response score of respondents in RSU, UNIPORT and IAUE in the influence of internal auditing on the reporting of income expenditure in universities in Rivers State**

<b>Dependent Variable: Income Expenditure</b>					
Source	Type III Sum of Squares	Df	Mean Square	F	Sig.
Corrected Model	279.07 <sup>a</sup>	3	93.02	21.80	0.00
Intercept	2453.62	1	2453.62	574.93	0.00
Internal Auditing	245.38	1	245.38	57.50	0.00
Universities	133.65	2	66.82	15.66	0.00
Error	1783.90	418	4.27		
Total	114981.00	422			
Corrected Total	2062.97	421			

a. R Squared = .135 (Adjusted R Squared = .129)

Table 6 shows that there is significant difference in the mean response score of respondents in University of Port Harcourt, Rivers State University, and Ignatius Ajuru University of Education in the influence of internal auditing on the reporting of income expenditure in universities in Rivers State ( $F_2 = 15.66 > 1.96$ ,  $df = 418$ ,  $P = 0.00 < 0.05$ ), hence null hypothesis three is rejected at the 0.05 level of significance.

## DISCUSSION

The findings of this study were discussed in consonance with the research questions as follows:

### **Influence of Internal Auditing in the Reporting of Income Statement in Universities in Rivers State**

The findings of table 1 indicate that majority of the respondents agreed that there is strong influence of internal auditing on the reporting of income statement in universities in Rivers State. Furthermore, the result of table 4.5 indicates that there is significant difference in the mean response score of respondents in University of Port Harcourt, Rivers State University, and Ignatius Ajuru University of Education in the influence of internal auditing on the reporting of income statement in universities in Rivers State.

The findings were consistent with the findings of Mawanda (2018), which revealed that there was a significant relationship between the internal control system and financial performance. On the other hand, the findings are contrary to the findings of Okonkwo and Ille (2019), which indicated that there was no significant difference in the mean ratings of account officers based on type and ownership of institutions.

The implication of the findings is that the extent of influence of internal auditing on the reporting of income statement among the three universities in Rivers State differs significantly.

### **Influence of Internal Auditing in the Reporting of Cash Flow Statements in Universities in Rivers State**

The findings of table 2 indicate that majority of the respondents agreed that there is strong influence of internal auditing on the reporting of cash flow statements in universities in Rivers State. Furthermore, the result of table 4.6 indicates that there is no significant difference in the mean response score of respondents in University of Port Harcourt, Rivers State University, and Ignatius Ajuru University of Education in the influence of internal auditing on the reporting of cash flow statements in universities in Rivers State.

The findings were consistent with the findings of Mawanda (2018), which revealed that there was a significant relationship between the internal control system and financial performance. On the other hand, the findings are contrary to the findings of Eke (2018), whose finding revealed that there is no significant influence on external audit effectiveness in universities in Rivers State.

The implication of the findings is that the extent of influence of internal auditing on the reporting of cash flow statements in universities in Rivers State differs significantly.

### **Influence of Internal Auditing in the Reporting of Income Expenditure in Universities in Rivers State**

The findings of table 3 indicate that majority of the respondents agreed that there is strong influence of internal auditing on the reporting of income expenditure in universities in Rivers State. Furthermore, the result of table 4.7 indicates that there is significant difference in the mean response score of respondents in University of Port Harcourt, Rivers State University, and Ignatius Ajuru University of Education in the influence of internal auditing on the reporting of income expenditure in universities in Rivers State. Mawanda (2018) whose study revealed that there is significant relationship between internal control system and financial reporting performance corroborates these findings. The implication of the findings is that the extent of influence of internal auditing on the reporting of income expenditure in universities in Rivers State differs significantly.

## Summary

The study appraised the influence of internal auditing on the financial reporting performance of universities in Rivers State. Three objectives, three research questions and three null hypotheses were formulated to guide the study.

The survey research design was used to carry out the study. The study was carried out in the three Universities in Rivers State. The population for the study consisted of 428 staff working in the account and bursary units of the universities in Rivers State, with a census sampling technique of 428 staff comprising of audit unit (23), Bursary unit (147), accounting unit (169), and store keeping unit (89) from the universities in Rivers State. Out of 428 copies of the questionnaire distributed, 422 copies of the questionnaire were retrieved and used for further analysis. A questionnaire instrument titled: "Internal



Auditing and Financial Reporting Performance Questionnaire (IAFRPQ) developed by the researcher was used to gather the necessary data for the study. The instrument was validated by the researcher's supervisor and an expert in the field of Measurement and Evaluation and two experts in the Department of Business Education, Rivers State University a reliability index of  $r = 0.82$  established through the Cronbach alpha. Mean score and standard deviation were used to answer the research questions while Analysis of Variance (ANOVA) was used to test the null hypotheses at the 0.05 level of significance.

### **Educational Implications**

The research was met with various challenges when conducting the research that included the fact that;

1. Some of the respondents did not find the subject to be of interest. Additionally, some respondents did not want to give the information as they considered it of competitive importance.
2. Some Universities in Rivers State that constituted the population of the study initially did not want to grant permission for their institutions to be used for the study. However, the researcher was able to convince the management of the institutions who later granted permission.
3. The findings of the study may not be generalizable to universities outside Rivers State, other than universities in Rivers State; due to differences in social, political and economic environments.
4. Increased sample frame would have been essential to increasing the representation of the respondents from the universities in Rivers State used for the study, if the study had covered beyond Rivers State and to allow for better check of consistency of the information given.

### **CONCLUSION**

The study examined the influence of internal auditing on the financial reporting performance of universities in Rivers State. The key findings of the study revealed that there is strong influence of internal auditing on the reporting of income statement in universities in Rivers State. Based on the findings of the study, it was concluded that if internal audit unit is effective then it would have a positive impact on the effectiveness of internal control system of universities in Rivers State, which was revealed to have significant influence on the financial reporting performance of universities in Rivers State.

### **RECOMMENDATIONS**

Consequent upon the findings of this study, the following recommendations are hereby made:

1. The University should ensure adequate reporting of income statement that will enable the management of universities in Rivers State to carry out competency profiling in the internal audit department.
2. The University should ensure adequate reporting of cash flow statements, the management of the universities in Rivers State should establish and manage knowledge/information management system within the institution so as to enable all parties within the institution to freely access and utilize the official information.
3. The University should ensure adequate reporting of income expenditure, the management of the universities in Rivers State should adopt internal control and information systems that produce operational, financial and compliance-related information reports to make it possible to run and control the institutions.
4. The University should ensure adequate reporting of statement of changes in shareholder equity, internal controls, the management of the universities in Rivers State need to adequately monitor and supervise the activities of her staff in order to assess the quality and the effectiveness of the systems performance over time.

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